Order Code IB95017

CRS Issue Brief for Congress
Received through the CRS Web

Trade and the Americas

Updated February 4, 2004

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SUMMARY

At the 1994 Summit of the Americas, 34 hemispheric democracies agreed to create a "Free Trade Area of the Americas" (FTAA) no later than 2005. If created, the FTAA would be a $13 trillion market of 34 countries (Cuba is not included) and nearly 800 million people. The population alone would make it the largest free trade area in the world with more than twice the 375 million population of the now 15-nation European Union. In the 9 years following the 1994 summit, Western Hemisphere trade ministers have met eight times to advance the negotiating process. On November 17-20 2003, ministers agreed to a declaration that would create a two-tier FTAA structure by January 1, 2005. The first tier would be composed of common obligations of the 9 negotiating groups for all 34 countries. The second tier would consist of a series of plurilateral agreements countries would voluntarily undertake to achieve deeper disciplines in the 9 groups. As a result, the FTAA now being negotiated will be less comprehensive and ambitious as previously envisioned. Premised on the view that simultaneous negotiations serve as prods and stepping-stones to hemispheric free trade, the Bush Administration has also pursued free trade agreements (FTAs) with individual countries or groups of countries in the region. The first involves an FTA with Chile - an agreement which after a number of setbacks and long delays was concluded December 11, 2002. USTR Robert Zoellick signed the agreement June 6, 2003 and Congress approved the agreement last summer.The second free trade negotiation involves five Central American countries — Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The Administration started formal negotiations on January 27, 2003 and concluded an agreement with four of the original five countries (Costa Rica excepted) December 17, 2003. On January 25, 2004, the United States and Costa Rica reached agreement, paving the way for formation of a six nation U.S.-Central American free trade agreement (CAFTA). It is not yet clear whether the Administration will ask Congress to approve implementing legislation this year because the agreement is expected to be more controversial than the Chile agreement. The U.S. is also holding trade talks with the Dominican Republic with the intent of folding this agreement into the CAFTA. In addition, the Bush Administration intends to negotiate a free trade agreement with the four Andean countries of Bolivia, Colombia, Ecuador, and Peru. Talks with Ecuador and Peru are to begin in the second quarter of 2004, with Ecuador and Bolivia to follow. Free trade negotiations between the U.S. and Panama are also taking place this year. Congress is monitoring implementation issues related to NAFTA and the Andean Trade Preferences Act (ATPDEA). NAFTA as the first free trade agreement the United States entered into with a lower-wage and lower income developing country remains controversial. Perceptions of its costs and benefits influence the debate on negotiating the FTAA or other free trade agreements with developing countries. The expanded ATPDEA will remain in effect until December 31, 2006, by which time the United States and its hemispheric partners, including the Andean countries, are due to have implemented the FTAA.

Most Recent Developments

The United States and Costa Rica reached agreement January 25, 2004 on a free trade agreement, paving the way for Costa Rica to join its four Central American neighbors in a U.S.-Central America Free Trade Agreement (CAFTA).

On December 17, 2003, the United States concluded negotiations with four of the five Central American Common Market (CACM) countries (Guatemala, Honduras, El Salvador, and Nicaragua).

A group of 19 Senators called on the Bush Administration on November 24, 2003 to table an improved negotiating offer on environmental standards in free trade agreements talks with five Central American countries.

At the Free Trade of the Americas ministerial meeting held in Miami November 17-20, 2003, agreement was reached on a process that would create a two-tier FTAA structure by the January 1, 2005 deadline.

U.S. Trade Representative Robert Zoellick announced on November 18, 2003 that the administration plans to begin free trade agreement discussions in 2004 with the Andean countries – Colombia, Peru, Ecuador, and Bolivia.

Deputy U.S. Trade Minister Peter Allgeier stated on September 25, 2003 that the U.S. remains committed to securing a comprehensive FTAA agreement, but is flexible on how this goal could be achieved.

U.S. Trade Representative Robert Zoellick notified Congress on August 6, 2003 of the Administration's intention to begin FTA negotiations with the Dominican Republic.

The Senate on July 31, 2003 passed the Chile implementing legislation by a vote of 66-31.

The House on July 24, 2003 approved legislation implementing the U.S.-Chile free trade agreement by a vote of 270-156.

U.S. Trade Representative Robert Zoellick and Chilean Foreign Minister Soledad Alvear signed the U.S.-Chile free trade agreement on June 6, 2003.

Background and Analysis

Summit of the Americas: Trade Results

At the Summit of the Americas held December 9-11, 1994 in Miami, 34 hemispheric democracies agreed to create a "Free Trade Area of the Americas (FTAA)." Under the Declaration of Principles, the countries committed to "begin immediately" construction of the free trade area and to complete negotiations no later than the year 2005.

The Declaration stated that concrete progress toward the FTAA would occur before the year 2000. Based on the view that substantial progress towards economic integration in the hemisphere has already been made, the declaration called for building on "existing sub-regional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together." At the same time, the declaration recognized the need to "remain cognizant" of the "wide differences in the levels of development and size of economies" in the Hemisphere in moving toward tighter economic integration.

If created, the FTAA would have 34 members (Cuba is not included) and nearly 800 million people. This population would be more than twice the 375 million of the now 15-nation European Union.

In the nine years following the 1994 Miami Summit, Western Hemisphere trade ministers have met eight times under the FTAA process. The first meeting was held in Denver in June 1995; the second in Cartagena, Colombia in March 1996; the third in Belo Horizonte, Brazil in May 1997; the fourth in San Jose, Costa Rica in March 1998; the fifth in Toronto, Canada in November 1999, the sixth in Argentina from April 6-7, 2001, the seventh in Quito, Ecuador from November 1-2, 2002, and the eighth in Miami from November 18-20, 2003.

At the San Jose meeting in 1998, the 34 Ministers responsible for trade in the Hemisphere unanimously recommended that the Leaders formally launch the negotiation of the FTAA at the Second Summit of the Americas in Santiago. As provided by the San Jose Declaration, ministers agreed that negotiating groups were to achieve considerable progress by the year 2000, with a conclusion set for December 31, 2004. The San Jose Declaration also provided recommendations on the initial structure, objectives, venues, and principles of the negotiations.

Canada was designated as the Chair of the overall negotiating process for the initial 18 months (May 1, 1998-Oct. 31, 1999) and the United States and Brazil were named co-chairs during the final two years of the negotiations (November 1, 2002-December 31, 2004). As head of both the Ministerial and Trade Negotiations Committee (TNC), the Chair provides overall direction and management of the negotiations.

The Ministers elected to establish nine initial negotiating groups, which cover all the tariff and non-tariff barrier issue areas identified by the Leaders at the Miami Summit of the Americas. These groups are market access, agriculture, services, government procurement, investment, intellectual property, subsidies, competition policy, and dispute settlement. In addition, the Ministers created several non-negotiating groups and committees. For example, a Committee on Electronic Commerce, comprised of both government and private sector experts, was established to make recommendations on how to increase and broaden the benefits to be derived from the electronic marketplace. A Committee on Civil Society was established to receive input at the hemispheric level from labor and environmental groups, and academic, consumer, and other non-governmental groups. And a Consultative Group on Smaller Economies was established to bring to the attention of the TNC the interests and concerns of the smaller economies.

The United States (Miami) provided the venue for the negotiating groups and the administrative secretariat supporting those meeting during the first three years. Panama hosted the administrative secretariat until May 2002 when it shifted to Mexico for the duration of the negotiations.

The San Jose Declaration contains General Principles for the Negotiations, as well as General and Specific Objectives. In addition to transparency during the negotiations, the Ministers agreed that the FTAA should improve upon WTO rules and disciplines wherever possible and appropriate. This provision was an attempt to ensure that any final agreement will break down the most serious trade barriers in the region and provide a single set of rules for hemispheric trade. It was agreed that bilateral and sub-regional agreements such as NAFTA and Mercosur can coexist with the FTAA only to the extent that the rights and obligations under those agreements are not covered or go beyond those of the FTAA. It was also agreed that the negotiations will be a "single undertaking," in the sense that signatories to the final FTAA Agreement will have to accept all parts of it (i.e. cannot pick and choose among the obligations.)

At the Second Summit of the Americas, held in Chile in April 1998, then President Clinton and 21 other presidents and 12 prime ministers of the Western Hemisphere agreed to begin the trade negotiations, and to make "concrete progress" toward the free trade goal by 2000. Since then, some progress has been made in developing a variety of customs-related business facilitation measures to expedite the conduct of trade even before the negotiations are completed. In terms of the negotiations, considerable progress has been made in some of the groups; much less in others.

The sixth ministerial meeting, held April 6-7, 2001 in Buenos Aires, established a more precise time frame for conclusion and entry into force of the FTAA agreement. These deadlines, which included the provisions that the FTAA countries must agree on how to conduct the market-opening portion of the talks by April 1, 2002; start tariff negotiations no later than May 15, 2002; and produce an agreement that should enter into force no later than December 2005, were approved by 33 Heads of State at the Quebec City Summit. Only Venezuela declined to endorse the time-line, arguing that the leaders' declaration as worded did not reflect the process under its national laws for ratifying the agreement. The leaders also added a new pledge that only democracies would be able to participate in the trade bloc and agreed to make public the preliminary negotiated texts. (The preliminary draft text covering nine chapters negotiated is now available on the FTAA website in the four official languages of the FTAA: English, Spanish, French, and Portuguese).

At the seventh ministerial meeting in Quito, trade ministers reaffirmed their commitment to a schedule of negotiations involving services, investment, government procurement, and agriculture and nonagricultural market access. Under the agreed upon time frame, initial offers would be tabled between December 15, 2002 and February 15, 2003, that requests for improvements in initial offers will occur between February 1 and June 15, 2003, and that the process for exchanging improved offers will take place no later than July 15, 2003.

The ministers also agreed to launch a Hemispheric Cooperation Program that would provide technical assistance to developing countries to help them take advantage of the FTAA negotiations. U.S. Trade Representative Robert Zoellick announced at Quito that

President Bush would seek a 37% increase in trade capacity-building assistance for the region in FY 2003, to $140 million. However, the ministers remained stalemated over how to proceed on agriculture. The ministerial declaration, on the hand, stated that FTAA negotiations must "take account the practices by third countries that distort trade in agricultural products." This language reflected U.S. concerns that it would not discuss reductions of agricultural support unless European Union agricultural subsidies were also on the table. On the other hand, the declaration made clear that other countries would hold back on their tariff offers in agriculture until the United States agrees to cut its subsidies and domestic support programs.

At the FTAA trade ministerial held in Miami from November 18-20, 2003, a declaration that would create a two-tier FTAA structure by the January 1, 2005 deadline was agreed to. The first tier would be comprised of common obligations on the 9 negotiating groups for all 34 FTAA countries. The second tier would consist of a series of plurilateral agreements countries would voluntarily undertake to achieve deeper disciplines in these 9 groups. The declaration does not make explicit whether plurilateral agreements will be undertaken for each of the ten negotiating groups, nor does it specify whether the common obligations negotiated would be linked to a countries' participation in any plurilateral agreements. As a result of the Miami meeting, the FTAA now being negotiated will be less comprehensive and ambitious as previously envisioned.

Much of the work now in interpreting the Miami declaration falls to the FTAA's Trade Negotiating Committee. The declaration contains only a September 30, 2004 deadline for conclusion of negotiations on market access.

The outcome of a February 2004 meeting of the Trade Negotiating Committee in Puebla, Mexico should provide a better indication of the scope and ambition of any FTAA. This meeting is intended to develop the common set of obligations all FTAA countries must sign onto and establish the procedures for negotiating the plurilateral agreements.

Vision of Free Trade in the Americas

The vision of free trade in the Americas was put forth initially by President George Bush in June 1990. Proposed as the cornerstone of the Enterprise for the Americas Initiative (EAI), President Bush envisaged the creation of a " free trade system that links all of the Americas: North, Central, and South ... a free trade zone stretching from the port of Anchorage to the Tierra del Fuego" (the southern tip of Chile). The free trade vision was enthusiastically received in Latin America.

Bush Administration officials at the time emphasized that the goal of hemispheric free trade was long-term, and could take a decade or more to come to fruition. Moreover, the hemispheric free trade vision entailed a variable pattern of economic integration, perhaps involving a number of free trade agreements with individual countries or with the region's economic groupings. Given that the timing, terms, and actual dimensions of the proposal were uncertain, its main significance was an offer of a special relationship with the countries of the Western Hemisphere.

Upon assuming office, President Clinton supported the hemispheric free trade concept. Like his predecessor, Clinton viewed movement towards hemispheric economic integration as supportive of U.S. economic and political interests.

Initially, Clinton Administration efforts to clarify the process by which it would work toward creation of a hemispheric free trade area awaited the outcome of the congressional vote on NAFTA, a trade agreement that was touted as a first step in moving towards the vision of hemispheric free trade. Since NAFTA was approved in late 1993, the Administration restated its intention of negotiating a free trade agreement with Chile first, but declined from naming other specific countries as candidates for future free trade agreements.

The 1994 Clinton Summit of the Americas in Miami helped create a political consensus in the Administration to take further steps in moving towards hemispheric integration. In remarks delivered at the Summit, President Clinton hailed the proposal to build a free trade area from Alaska to Argentina as producing more jobs in the United States and improving the quality of life for residents of the Western Hemisphere.

Since Miami, the vision of hemispheric free trade has been embraced by President George W. Bush and promoted by both the formal negotiations held as a part of the FTAA process, and by the expansion of sub-regional groups and the proliferation of bilateral free trade agreements. Under the former approach, the trade ministers of the hemisphere laid the groundwork for the formal launching of the negotiations, which was agreed to at the Second Summit of the Americas in Santiago. Under the latter approach, Mercosur (the Southern Cone Common Market) has expanded and countries such as Chile and Mexico have negotiated bilateral free trade agreements.

Movement Towards Hemispheric Free Trade

Assessments differ on whether the movement towards hemispheric free trade is "on-track" or "off-track." The former perspective maintains that a solid foundation and structure for FTAA negotiations has been completed, draft chapters have been submitted, a schedule for tariff negotiations been agreed to, and the negotiations are still due to conclude by January 1, 2005. The latter perspective holds that in the aftermath of last November's Miami ministerial meeting, the 34 countries are on track to conclude a much less ambitious and comprehensive free trade accord than was previously envisioned. Under this perspective, political and economic differences, particularly between the United States and Brazil, have contributed to this development.

Those who see positive developments over the past several years point to the accomplishments of the San Jose Trade Ministerial and the Second Summit of the Americas in getting the FTAA negotiations off to an official start. The FTAA countries have reached agreement on a range of business facilitation measures that include temporary admission of certain goods related to business travelers, express shipments, simplified procedures for low value shipments, compatible data interchange systems, harmonized commodity description and coding system, hemispheric guide on customs procedures, codes of conduct for customs officials, and risk analysis/targeting methodology. The development of a draft "bracketed" text is also considered a major accomplishment. While last November's Miami ministerial declaration commits the countries to a more flexible agreement with fewer common standards, the declaration arguably still makes it possible for negotiators to secure a comprehensive FTAA.

The "on-track" perspective also points to market access offers on industrial and agricultural goods. To date all the FTAA countries have tabled initial offers for tariffs and almost all have made requests for improvements. The United States submitted a differentiated offer that favored Caribbean and Central American countries the most and Andean and Mercosur countries (Brazil, Argentina, Paraguay, and Uruguay) the least. For example, for industrial goods, 91% of Caribbean exports would get duty-free treatment immediately after the FTAA takes effect, compared to only 58% of Mercosur exports.

Those who judge that the process is "off-track" make several points. The first is that the compromise agreed to at Miami was a major lowering of the ambitious aim of creating a truly comprehensive FTAA. Instead of a wide-ranging accord that would entail a "single undertaking" where signatories could not pick and choose among obligations, the Miami declaration expressly called for a two-tiered FTAA. Countries now evidently will be able to choose different levels of obligations and commitments. Nor is it clear yet what minimum level of commitments all participants will have to agree to and whether or not these commitments go beyond existing WTO commitments.

The compromise at Miami was mainly driven by differences between Brazil and the United States. Brazil did not want to open up its service industries or government contracts and many of its manufacturing firms were not supportive of the FTAA. Long protected by high tariffs and quotas, many Brazilian companies were wary that they would be overwhelmed by U.S. competition if an ambitious FTAA were to come to fruition. The United States, for its part, was determined to maintain protection in sectors most coveted by Brazil, including textiles, steel, citrus, and agriculture. Brazil, however, made it clear that agricultural domestic support programs and export subsidies need to be addressed in the FTAA. These support programs and subsidies not only have a major impact on Brazil's ability to export competitive food products into the United States and third countries, but also undercuts the ability of Brazilian farmers to compete at home. This same concern was echoed in many other Latin American countries. The United States, however, maintained that these issues must be dealt with in the WTO Doha Round because the United States would not "unilaterally" disarm its farm programs with respect to the European Union. These differences, in turn, prompted a somewhat ambiguous compromise.

The outcome at Miami could also have been driven by less than robust public support for the FTAA in the United States and in Latin America. Labor and environmental interest groups in the United States oppose free trade agreements that lack strong protections for basic labor and environmental standards and mobilized protests during the ministerial. And many Latin American businesses and citizens fear the effects of greater exposure to the competitive pressures of large U.S. companies. Moreover, after five years of economic stagnation in the region, many Latin American countries are taking more interventionist and state-directed approaches to economic development, often in conflict with more free market precepts implicit in the creation of an FTAA.

U.S. Interests and Concerns

Supporters view hemispheric integration as bolstering U.S. economic and political interests in a variety of ways. Movement towards freer markets is viewed as supportive of U.S. prosperity, while the strengthening of democratic regimes is viewed as supportive of U.S. values and security. Closer economic ties are also seen improving cooperation on a range of bilateral issues, including environmental concerns and anti-drug efforts.

In most general terms, a reciprocal reduction of trade barriers by two or more countries usually contributes to improved efficiency and higher living standards for both. As average tariffs in Latin America are roughly four times higher than U.S. tariffs (12% compared to 3%), supporters argue that the lowering of tariffs and other trade barriers should facilitate significant increases in U.S. exports.

Supporters point out that the FTAA countries (which includes Canada and Mexico) have become the largest regional destination for U.S. exports and imports. The region accounted for $687 billion or 37% of total U.S. trade in 2002, up from $293 billion or 33% of total U.S. trade in 1990. Excluding Canada and Mexico, the region accounts for about 6.5% of both U.S. exports and imports.

Supporters also believe that a higher degree of economic integration should contribute to the consolidation of economic and political reforms that have taken place throughout the hemisphere. They maintain that the reforms have not only contributed to an improved economic performance in Latin America overall, but they have also made Latin America a more attractive setting for U.S. foreign investment. Similarly, they maintain that the stronger Latin America becomes economically, the more likely democratic institutions will continue to proliferate and deepen.

U.S. opponents of an FTAA are concerned that hemispheric free trade would lead to the export of jobs that otherwise would be in the United States. Some domestic critics believe that an FTAA will induce an outflow of American capital to take advantage of much lower wages and weak safety and environmental standards. Many opponents of the FTAA have argued that free trade with poorer countries will put pressure on the United States to lessen its workforce protections and environmental requirements.

Other critics are concerned that an FTAA will inevitably involve the United States in the instabilities, class tensions, and economic turmoil of many southern hemisphere societies. Some cite Mexico's financial crisis in 1995 as an example of potential costs. According to this view, costs include a deterioration in the U.S. trade balance, an increase in immigration pressures, and the need to extend a large amount of credit.

From a very different perspective, some opponents also argue that hemispheric free trade could undermine the achievement of a stronger and more open multilateral trading system. According to this perspective, regional free trade agreements that may weaken the multilateral trading system do not serve the interests of the United States because it has major commercial interests in all regions of the world — Asia, Europe, and North America, and Latin America. Furthermore, this argument is that a multilateral agreement offers far greater economic benefits than regional agreements.

Latin American Interests and Concerns

Latin American nations made considerable progress in implementing far-reaching trade reforms and opening their economies to outside competition during the first half of the 1990s. . The prospects of hemispheric economic integration have spurred new sub- regional integration schemes and breathed life into sub-regional groups that had lost their stamina. Most importantly, the political commitment at the Miami Summit to create an FTAA by the year 2005 was a product largely of pressures from many of the countries in the region.

Since 1990, four sub-regional groups have made considerable progress breaking down intra-regional trade barriers. MERCOSUR, the Common Market of South, consists of Argentina, Brazil, Paraguay, and Uruguay and is the second largest preferential trading group in the Western Hemisphere. Argentina's recent financial crisis and devaluation, however, is severely challenging the viability of Mercosur today. The Andean Community, consisting of Bolivia, Colombia, Ecuador, and Venezuela (Peru dropped out in 1997), currently is the third largest preferential trading group in the Western Hemisphere. Acting unilaterally as well as under the auspices of the Community (formerly the Andean Pact), individual members have liberalized their own trade and investment regimes in recent years. The Caribbean Community and Common Market (CARICOM), consisting of 13 English-speaking Caribbean nations, has agreed to implement a common external tariff over a period of six years, although members will be allowed to maintain their own non-tariff barriers. The Central American Common Market, (CACM), originally established in 1961, gained new stimulus after a 1990 summit of Central American Presidents. Within CACM, the Central American Group of four — El Salvador, Guatemala, Honduras, and Nicaragua — has taken measures to liberalize and harmonize their trade regimes.

The likelihood of eventual hemispheric free trade could provide a further boost to the economies of the region. Hemisphere-wide free trade could boost the region's economic growth through increased trade and inflows of foreign investment.

Most Latin American leaders generally support the establishment of a hemispheric free trade area, believing that an FTAA will help bring about greater prosperity, competition, and entrepreneurial activity. A number of critics, however, caution that the United States will benefit the most from the arrangement by demanding further opening of Latin American markets to U.S. goods while following a protectionist course for politically sensitive U.S. industries such as steel and agriculture.

Similarly, many Latin Americans understand that negotiating a free trade agreement with the United States opens themselves to increased trade competition and potential U.S. involvement in such issues as environmental standards, workers' rights, and intellectual property rights protection. Some worry that as tariffs fall, the United States would increasingly resort to other procedural ways (such as the imposition of anti-dumping or countervailing duties) to protect its producers and workers. Consequently some nations might not be willing to move as quickly as others toward the goal of free trade. And others, such as Brazil, may attach greater importance and priority to the consolidation and strengthening of sub-regional trade groups before moving towards a hemispheric free trade area.

Beyond that, opposition to hemispheric free trade could grow if the region's unemployment and staggering poverty does not begin to decline. Despite the overall improvement in economic growth in the 1990s, the number of people living in poverty (defined as less than $1 a day) has dropped from 41% in 1990 to only 35% by the end of the decade. As a result, too many Latin Americans have seen little evidence that the shift towards freer trade and more open markets has improved their living standards.

As a number of the countries of Latin America have experienced economic and political turmoil over the past two years, the environment conducive to free trade negotiations has also deteriorated. Economic growth in the region was less than 1% in 2001 and was barely positive in 2002. An uncertain political situation in Venezuela and Argentina's continuing economic crisis pose special challenges.

Policy Issues and Congressional Actions

U.S.-Chile Free Trade Agreement

Canada's Prime Minister Jean Chretien was widely quoted at the conclusion of the first Summit of the Americas on the invitation to Chile from the United States, Canada, and Mexico to join NAFTA: "For one year we have been the three amigos. Starting today, we will be the four amigos."

Accession negotiations were formally initiated on June 7, 1995 in Toronto, but they remained preliminary due to the fact that the Clinton Administration lacked fast- track negotiating authority. Chile elected not to negotiate on any "sensitive" issues unless fast track authority is renewed to cover the negotiations (Chile subsequently negotiated an FTA with Canada and already had one with Mexico). Such authority allows the Administration to negotiate a trade agreement with assurances that the legislation implementing the agreement will be treated under special, expedited floor procedures. Differences between most House Democrats, on the one hand, and most Republicans, on the other hand, on the inclusion of labor and environmental objectives in future free trade agreements had been a major reason for the fast-track (now called trade promotion) stalemate.

From 1995-1999, the significance of the inability of the Clinton Administration to carry through on its pledge to negotiate Chilean accession to NAFTA or to negotiate a bilateral free trade agreement was mostly political, not economic. In economic terms, NAFTA accession or a free trade agreement would unlikely have any demonstrable effect on the overall U.S. economy because trade between the two countries, although growing, is a minuscule percent of overall U.S. trade flows (approximately ½ of 1 percent). Chile ranks as the 32^{th} most important market for U.S. exports worldwide, accounting for $3.1 billion in 2001. U.S. imports from Chile totaled $3.5 billion in 2001, representing the 40^{th} largest supplier. As a country of only 13 million people, with an economy the size of Dallas, and located some 4,000 miles from the United States, Chile is unlikely to become a major trading partner of the United States.

In political terms, the Clinton Administration's inability to carry through on its promise to achieve a free trade agreement with Chile perhaps weakened its negotiating leverage in the context of the FTAA. The promise of Chilean accession to NAFTA, for some interest groups, was that NAFTA obligations and rules could be adopted to serve as the foundation for hemispheric integration. After Chile acceded, it was believed that other countries would be eager to join NAFTA when they were ready as well. Lacking fast-track, the Administration, however, arguably was forced to make a number of compromises concerning the objectives and structure of the FTAA negotiations as enunciated in the San Jose Declaration.

Despite the obvious set-backs and delays, the idea of free trade negotiations with Chile took an unexpected turn on August 10, 1999. On this day, Chile's Foreign Minister Juan Gabriel Valdes announced that Chile was prepared to start preliminary discussions on a bilateral FTA with the United States without fast-track negotiating authority in place. The United States termed the proposal "constructive" and "positive" at the October 5-6, 1999 meeting of the U.S.-Chile Joint Commission on Trade in Investment in Santiago, Chile. And on November 29, 2000, President Clinton proposed that formal negotiations begin. Chile accepted and the negotiations formally commenced December 6-7, 2000 in Washington, D.C.

The Bush Administration continued the negotiations and after 14 rounds of meetings concluded an agreement on December 11, 2002. President Bush formally notified the 108th Congress on January 30, 2003, of his intention to sign the agreement. This began a 90-day review period prior to any submission of implementing legislation by the executive branch. On June 6, 2003 U.S. Trade Representative Robert B. Zoellick and Chilean Foreign Minister Soledad Alvear signed the trade agreement. The House on July 24, 2003 approved legislation (H.R. 2738) implementing the agreement by a vote of 270-156. Senate approval came on July 31 by a vote of 66-31.
And President Bush signed the implementing legislation into law (P.L.108-77) on September 3, 2003.

The agreement - the first comprehensive free trade agreement between the United States and a South American country — allows 85% of all consumer provides that more than 85% of two-way trade in consumer and industrial products becomes tariff-free immediately, with most remaining tariffs eliminated within four years. More than three-quarters of U.S. farm goods will enter Chile tariff-free within four years, with all tariffs phased out within 12 years. U.S. service companies in banking, insurance, telecommunications, securities, express delivery, and professionals will gain increased access to Chile's market. New intellectual property protections are provided for U.S. digital products such as software and music, as well as new anti-corruption rules in government contracting.

U.S. Trade Representative Robert Zoellick said that the agreement is a "win-win state-of-the art FTA for the modern economy — it not only slashed tariffs, it reduces barriers for services, protects leading-edge intellectual property, keeps pace with new technologies, ensures transparency and provides effective labor and environmental enforcement." Chilean business and political leaders are also generally enthusiastic about the agreement,. hoping that it will help make its economy more competitive. In particular, many in Chile hope that the agreement serves to spur foreign direct investment.

U.S.- Central American Free Agreement

President Bush announced the administration's interest in exploring a free trade agreement with five Central American countries — Costa, Rica, El Salvador, Guatemala, Honduras, and Nicaragua — on January 16, 2002 in a speech before the Organization of American States. The President stated that "our purpose is to strengthen the economic ties we already have with these nations, to reinforce their progress toward economic, political, and social reform, and to take another step toward completing the Free Trade Area of the Americas."

On October 1, 2002, President Bush notified Congress of his intention to launch the talks. On January 8, 2003, the Bush Administration announced the launch of the negotiations. And on January 27, 2003 the first of nine scheduled negotiating rounds began in San Jose. The last round of the talks took place in Washington and an agreement was reached on December 17, 2003 with four of the five Central American Common Market countries (Guatemala, Honduras, El Salvador, and Nicaragua). Costa Rica, the fifth CACM member, requested more time to negotiate to resolve outstanding issues in insurance and telecommunications, and reached agreement with the United States on January 25, 2004.

Under CAFTA, more than 80% of U.S. consumer and industrial exports would become duty-free immediately, with all tariffs removed within 10 years. Tariffs would to zero on information technology products and chemicals, among others. Over half of current U.S. farm exports to Central America would become duty free immediately, including "high quality" cuts of beef, cotton, wheat and soybeans. At the same time, the U.S. provided slight increases in sugar quotas and made other concessions in the textiles and apparel sector. The United States also made the benefits CACM countries receive under the Caribbean Trade Partnership Act (CBTPA) permanent.

Currently, it is not known when the Administration will send implementing legislation to Congress for approval. Opposition to the accord from labor groups, environmental groups, and segments of the textile and apparel and sugar industries may need to be addressed in order to secure majority congressional support.

For the United States, these Central American countries comprise a small trading partner. In 2003, both U.S. imports and exports to the region accounted for only around 1 percent of total U.S. trade. But for each of these Central American countries, the United States is their most important trading partner. For Costa Rica, the United States accounts for 40% of total trade; for El Salvador, 47%; for Guatemala, 48%; for Honduras, 63%; and for Nicaragua, 43%.

U.S. direct investment in the CAFTA countries totaled $3.1 billion at the end of 2001. Central American leaders hope that the CAFTA will spur more U.S. investment in their economies. In addition, they also hope that the CAFTA will meet broader foreign policy objectives like strengthening democratic institutions in the region.

The U.S. is also negotiating with the Dominican Republic with the intent of folding this agreement into the CAFTA. U.S. and Dominican Republic officials held the first rounds of talks January 12-16, 2004.

NAFTA And Hemispheric Integration

The North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico went into effect on January 1, 1994. It is the first free trade agreement that the United States entered into with a lower-wage and lower-income developing country. Its economic impact on U.S. communities and workers remains controversial and perceptions of its benefits and costs mirror and affect debate on extending NAFTA to other countries or negotiating similar free trade agreements such as the FTAA with developing countries. In addition, on-going implementation issues affecting specific industries remain controversial and dispute prone. Agriculture and trucking are two sectors that appear most prone to continuing disputes.

Most studies indicate that NAFTA has had a relatively small effect on the U.S. economy. In part because Mexico's economy is only 6% the size of the U.S. economy, NAFTA's impact in integrating the two economies more closely has had little consequence for U.S. wages, investment, growth, or aggregate employment levels. Most economists, however, believe that NAFTA has had a modest positive impact on productivity and a discernible impact on stimulating two-way trade.

Nevertheless, certain communities and industries have been adversely affected as a result of U.S.-Mexican economic integration. Although the number is small relative to the size of the U.S. workforce, the economic hardship and job losses are significant to those affected.

Debate over NAFTA that affects current and proposed trade negotiations centers mostly on implementation issues. The effectiveness of NAFTA's side agreements on labor and the environment are a source of considerable interest. Mexico's treatment of U.S. service providers and U.S. treatment of Mexican truckers is similarly controversial. In addition, agricultural trade issues continue to upset farmers on both sides of the border.

The Mexican government has been under strong pressure to protect its farmers from imports of dried beans and white corn from the United States. On May 7, 2003, Mexican Foreign Minister Luis Ernesto Derbez stated that Mexico is considering imposing safeguards or quotas on these products. Senate Finance Committee Chairman Charles Grassley, in turn, has expressed serious concerns about Mexico's recent efforts to protect these products as well as pork, high fructose corn syrup, beef, rice, and apples. On May 16, 2003, a coalition of U.S. agriculture groups wrote President Bush, urging him to stand firm against any Mexican efforts to renegotiate NAFTA provisions.

Andean Trade Preferences Act Implementation

The Andean Trade Preferences Act (ATPA) authorizes the President to grant certain unilateral preferential tariff benefits to Bolivia, Colombia, Ecuador, and Peru. The ATPA, which went into effect on December 4, 1991, expired on December 4, 2001. Often referred to as the trade component of then President Bush's "war on drugs," the ATPA attempted to encourage the economic development of Andean countries and economic alternatives to drug production and trafficking. Following a long debate, the 107th Congress reauthorized the program retroactively and expanded it in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Title XXXI of the Trade Act of 2002 (H.R. 3009), which was signed into law on August 6, 2002 by President Bush (P.L. 107-210).

Prior to the expiration of the ATPA, the Andean countries asked the United States to extend the program beyond its expiration date for more than three years, and to reduce the list of products excluded from tariff benefits. In support of ATPA reathorization, they argued that the program has been successful in encouraging a move away from narcotics trade to legitimate business in the region and in increasing U.S. exports. Since ATPA was passed in 1991, the four Andean countries have increased their exports to the United States by about 80%. Products benefitting from ATPA tariff preferences include cut flowers from Colombia, Ecuador, and Bolivia; precious metals and jewelry from Colombia, Bolivia, and Peru; and fish and fish products from Ecuador. By some estimates, the ATPA has created some 140,000 new jobs for these four countries since its inception.

ATPA countries hoped that any extension would provide preferences for their textile and apparel products. They wanted unlimited duty-free access for apparel articles made from regional fabric and regional yarn, as well as duty-free treatment for other products currently excluded — such as tuna, dairy products, leather, meat, and sugar — could create an additional 200,000 jobs over the next four years.

As passed into law, the Andean Trade Promotion and Drug Eradication Act extends and expands the previous ATPA as part of a continuing U.S. effort to counter illicit drug trafficking from the Andean region. To enhance the effects of the expired ATPA, it extends preferential treatment through December 31, 2006 and expands it to cover many Andean exports previously excluded, such as certain textile and apparel articles, footwear, leather products, petroleum, watches, and canned tuna. In general, the provisions provide treatment similar to those received by the Caribbean countries under the CBTPA.

Existing benefits that were renewed in the ATPDEA became effective immediately retroactive to December 4, 2001, when the ATPA expired. U.S. Trade Representative Robert Zoellick, however, determined that before countries could get the expanded trade benefits, they would have to be found eligible under new criteria included in the ATPDEA. Labor rights and intellectual property rights violations are two of eight new criteria that must be reviewed by the Administration before the Andean nations will be granted new trade preferences. The interagency review was completed over the summer and President Bush on October 31, 2002 signed a proclamation allowing Bolivia, Colombia, Ecuador, and Peru to begin receiving the expanded benefits under the ATPA. In issuing the proclamation, Bush granted duty-free access to all possible Andean goods subject to expanded ATPA , designating no products import sensitive. The new products include textiles; tuna in pouches; footwear; leather products such as apparel, handbags and luggage; certain knit-to-shape garments; petroleum products; and watches. The expanded ATPA will remain in effect until December 31, 2006, by which time the United States and its hemispheric partners, including the four Andean countries, are due to have implemented the FTAA.

In early February 2003, U.S. Trade Representative Robert Zoellick stated that the prospects of the United States negotiating a free trade agreement with the Andean countries were low. Rather Zoellick maintained that these countries should focus their efforts on advancing the FTAA negotiations. However, on July 24, 2003 Zoellick stated that Peru and Colombia were possible FTA partners. Then on November 18, 2003, Zoellick notified Congress of the administration's intent to negotiate an FTA with all four Andean countries. Talks with Colombia and Peru are to begin in the second quarter of 2004, and Ecuador and Bolivia are to follow later. While business groups generally welcomed the announcement, the U.S. Chamber of Commerce stated that several on-going investor disputes should be resolved before negotiations are begun.

CHRONOLOGY

01/25/04– The United States concluded free trade agreement talks with Costa Rica that should allow Costa Rica to join the CAFTA.

12/17/03 – The United States reached an agreement with four Central American countries to form an U.S.-Central American free trade agreement.

11/20/03 – Ministers attending a Free Trade Area of the Americas ministerial in Miami issued a declaration that calls for the creation of a two-tier FTAA structure in an attempt to complete the negotiation by January 1, 2005.

09/03/03 — President Bush signed H.R. 2738, legislation implementing the Chile free trade agreement, into law.

07/31/03 — The Senate approve the Chile trade agreement by a vote of 66 to 31.

07/24/03 — The House approved the Chile free trade agreement by a vote of 270-156.

06/06/03 — U.S. Trade Representative Robert Zoellick and Chilean Foreign Minister Soledad Alvear signed the U.S.-Chile free trade agreement.

02/11/03 — The Bush Administration announced its offer to eliminate tariffs and non-tariff barriers in the FTAA negotiations.

01/30/03 — President Bush formally notified Congress of his intention to sign the U.S.-Chile FTA.

12/11/02 — The United States and Chile concluded negotiations to establish a free trade area.

11/02/02 — At the seventh FTAA ministerial held November 1-2, 2002 in Quito, Ecuador, trade ministers agreed to a 40-point declaration that established specific mileposts for the market access portion of the negotiations.

10/31/02 — President Bush signed a proclamation on October 31, 2002 to allow Ecuador, Bolivia, Colombia, and Peru to begin receiving benefits under the expanded Andean Trade Preferences and Drug Eradication Act (ATPA).

08/06/02 — President Bush signed into law (P.L. 107-210) legislation (H.R. 3009) that renewed fast-track or trade promotion authority and that re-authorized and expanded the Andean Trade Preference Act.

05/04/02 — El Salvador's Ambassador to the U.S. said that the U.S. and five Central American countries have already begun informal negotiations toward a free trade agreement, but that formal negotiations are unlikely to take place until Congress passed a trade promotion bill.

01/16/02 — President Bush announced that his administration wishes to negotiate a free trade agreement with Central America.

12/06/01 — The House approved a bill (H.R. 3005) by a vote of 215-214 to provide the President with trade promotion authority.

07/02/01 — A draft FTAA bracketed text of the nine chapters negotiated to date was released to the public.

05/01/01 — The Bush Administration announced that it supports an expansion of the Andean Trade Preferences Act to provide the broadest possible benefits for Colombia, Bolivia, Peru, and Ecuador.

04/22/01 — The Third Summit of Americas, held in Quebec City, concluded with an agreement to complete the negotiations by January 2005 and to implement the agreement by year-end 2005.

01/08/01 — Chile and the United States begin formal negotiations to establish a free trade agreement.

05/18/00 — President Clinton signed into law (P.L. 106-200) legislation aimed at expanding U.S. trade with African and Caribbean Basin Initiative countries. The conference bill (H.R. 434) was approved by the House on May 4, 2000 by a vote of 309-110 and by the Senate on May 11, 2000 by a vote of 77-19.

05/04/00 — By a vote of 309-110, the House approved the conference report on H.R. 434, the Trade and Development Act of 2000. Title II expands trade preferences for Caribbean Basin exports of apparel products.

08/10/99 — Chile's Foreign Minister Juan Gabriel Valdes announced that Chile was ready to start preliminary work on a bilateral free trade agreement without U.S. fast-track negotiating authority in place.

04/19/98 — 34 Leaders meeting at the second Summit of the Americas in Santiago, Chile agree to formally launch FTAA negotiations.

12/9-11/94— Summit of the Americas held in Miami. Political commitment was made to negotiate a "Free Trade Area of the Americas" by the year 2005. In a separate action, the United States, Canada, and Mexico invited Chile to enter into negotiations to join NAFTA.

01/01/94 — The North American Free Trade Agreement entered into force.

For Additional Reading

CRS Issue Briefs

CRS Issue Brief IB95050. *Caribbean Basin Interim Trade Program (NAFTA/CBI PARITY)*, by Vladimir N. Pregelj.

CRS Reports

CRS Report RL30935. *Agricultural Trade in the Free Trade Area of the Americas,* by Remy Jurenas.

CRS Report RL30790. *The Andean Trade Preference Act: Background and Issues for Reathorization*, by J.F. Hornbeck.

CRS Report RS20864. *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J.F. Hornbeck.

CRS Report RL31144. *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J.F. Hornbeck.

CRS Report RL31870. *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration*, by J.F. Hornbeck.

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